Decision on BGN Allowed Revenues and Gas Distribution Tariffs for 2013/14

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Abstract:

This paper sets out the decision of the Commission for Energy Regulation ('the CER') in relation to Bord Gáis Networks ('BGN') Allowed Revenues and Gas Distribution Tariffs for the Gas Year 1st October 2013 to 30th September 2014.

Overall, weighted Distribution tariffs have decreased in nominal terms by -0.6% on 2012/13.

Target Audience:

Gas Customers, Suppliers, Shippers and Producers.

Related Documents:

- Decision Paper on October 2012 to September 2017 Distribution Revenues for Bord Gáis Networks (CER/12/194)

  PC3 Distribution Model

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1.0 Introduction

1.1 Purpose of this paper

The purpose of this paper is to outline the CER's decision in relation to BGN allowed revenues and gas Distribution tariffs for 2013/14. The calculation of Distribution tariffs is based on the BGN Price Control (PC3) (CER/12/194) which established revenues for Distribution over the 5 year period from October 2012 to September 2017.

1.2 Background Information

Under the Gas (Interim) (Regulation) Act, 2002, the CER is responsible for regulating charges in the natural gas market. Under Section 14 of that Act the CER may set the basis for charges for transporting gas through Distribution systems.

In July Bord Gáis Networks (BGN) submitted estimates of tariffs for the forthcoming year. This included:

- Revised expected pass through costs for 2013/14,
- Finalised pass through costs for 2011/12
- A revised required revenue using a WACC of 5.2% (down from 6.39%)
- A revised required revenue adjusted for New Towns (Nenagh & Wexford)

The Distribution revenues over the 5 year Price Control period are set out in the PC3 Decision. The model accompanying this decision was updated with the new WACC, additional Capex and associated Opex.

2.0 Distribution Revenues and Tariffs for 2013/14

2.1 PC3 Decision Paper CER/12/194

In May 2012 the CER produced a Consultation Paper (CER/12/057) on Distribution revenue for Bord Gáis Networks (BGN) for the period covering October 2012 to September 2017. This was followed by the Decision Paper on Distribution revenue in November 2012. This paper allowed €996 million to be recovered for Distribution over the 5 year period. Of this €392 million was allocated to Opex.

This Decision Paper outlined that the Weighted Average Cost of Capital (WACC) would be set at 6.39%. The 5 year PC3 Decision was taken at a time of significant economic uncertainty within both Ireland and the Eurozone. As such the WACC set in the PC3 Decision was 6.39%, which reflected the higher cost of debt and equity for many Eurozone countries and companies.

However, a trigger mechanism was included in the PC3 Decision where the WACC would be indexed to sovereign debt costs on a yearly basis. This aims to ensure that where market rates changed the effect would be passed onto consumers. A floor and ceiling of 5.2% and 8.2% respectively have been set for the WACC during this period.

During the last year, market conditions have become more favourable for Ireland with lower bond yields on government debt. This improvement has resulted in a review of the applicable WACC for 2013/14.The CER and BGN have reviewed the applicable WACC in light of these changing market conditions. As such the WACC has been reviewed and adjusted. The WACC floor of 5.2% now applies. This WACC adjustment has affected the expected total revenues over the remainder of the PC3 period. Details of this can be seen in the updated Distribution model (CER 13/192a) published with this paper.

2.2 Adjustments for Calculation of 2012/13 Tariffs

In order to finalise the 2012/13 Distribution tariffs, BGN have submitted further information including adjustments to the revenues. Having examined the submission, the CER has decided upon the following adjustments:

2.2.1 Revised Pass-Through Costs for 2013/14

Pass-through costs have been updated to reflect:

- Higher Local Authority rates.
- An additional allowance for Safety, in particular the development of a new Carbon Monoxide Awareness advert.
- Marginally higher Shrinkage costs
- A slight increase in Gaslink's costs due to preparatory work for impending Network Codes.
- The CER Levy has remained the same.
- An additional allowance has been allocated to Revenue Protection.

A positive number indicates a greater than expected cost under this heading i.e. it will apply upward pressure on the 2013/14 tariffs.

2013/2014 Forecasts	
Pass through Cost (Variance)	**€m**
Rates*	0.57
Safety**	1.84
CER Levy	No variance
Gaslink	0.03
Shrinkage	0.12
Revenue Protection	0.37
Total Variance	**2.92**

*For rates, 50% of the variance between allowed and estimated costs is passed through.

**For Safety, 100% of the variance between the original allowance and the estimated cost is passed through. In year of close out, 50% of the variance between the estimated and actual price is passed through when the actual price is known.

2.2.2 Inflation

In setting the 2013/14Tariffs, 1.2% inflation was assumed for the time period April 13 to March 14. In closing out revenues for 2011/12 actual inflation of 2.2% was used as opposed to the forecast inflation of 1.10%. (Source: CSO HICP).

Thus the inflation rate for 10/11 to 13/14 monies is 4.05%.

2.2.3 2011/12 Correction Factor

This correction factor adjusts for the difference between 2011/12 actual revenues, pass-through costs and customer connections versus 2011/12 projected revenues, pass-through costs and customer connections. These were forecast in August 2011 when 2011/12 Tariffs were set. Where an under-recovery occurred during the tariff year then this amount is added to the required revenues for 2013/14.
Where an under recovery occurs then an interest rate multiplier is applied to uplift the required revenues.

A positive number will apply upward pressure on the 2013/14 tariffs.

11/12 Actual Outturn	Over/Under recovery	€m	Cumulative additional revenue required €m
Revenue Under Recovery	Under	+3.37	+3.37
Connection Differences cost	Under	+0.05	+3.42
Rates*	Under	+1.28	+4.70
Safety	Over	-0.21	+4.49
CER Levy	Over	-0.05	+4.44
Gas Shrinkage	Over	-0.27	+4.17
Gaslink	Under	+0.16	+4.33
Total Under recovery	Under		**+4.33**
Interest rate Multiplier			1.06
Total Correction Factor	Under		**+4.59**

*For rates 50% of the cost variance between estimated and actual costs is passed through.

2.2.6 Interest Rate Multiplier/Euribor Rates

The interest rate multiplier is used to uplift revenue over/ under – recoveries for the tariff year 2011/12. In 2011/12 Distribution had a revenue under-recovery. The Euribor rate +2 is applied where under/over recoveries are below 103% of allowed revenues. This is calculated from the Euribor Interest Rate. This information may be found on the Euribor website.

http://www.euribor-ebf.eu/euribor-org/euribor-rates.html

Euribor 11/12	**1.42%**
Euribor 12/13	**0.49%**
Euribor +2% 11/12	**3.42%**
Euribor +2% 12/13	**2.49%**
Interest Rate	*****1.06**

3.0 Demand Projections

For the PC3 period demand projections were estimated for each of the 5 years of the Price Control. The demand projections for 13/14 expect that although new residential customers will continue to be connected, residential gas demand will continue to fall. This is partially due to continuing energy efficiencies which results in lower Annual Quantities (AQ) per residential connection. Historical demand is also weather adjusted.

It should be noted that these demand projections have been calculated using a reduced default expected demand for new connections. This brings the expected demand for new connections in line with the demand for existing connections.

The expected drop in Distribution Gas demand is expected to be ameliorated by an increase in the I/C sector demand. Strong growth is expected from the Distribution DM Sector as a result of growth in existing and new customers.
The table below shows what the original estimates as per the PC3 model and the recent estimates submitted by Bord Gáis Networks. It is expected that demand for capacity will decrease during 2013/14 and that commodity will increase during the period.

Commodity	**GWh**
PC3 Projections	14,485
Current Projections	14,689
% Change	1.41%

Table 3.1 Commodity Projections

Capacity	**GWh/Day**
PC3 Projections	115,228
Current Projections	114,532
% Change	-0.60%

Table 3.2. Capacity Projections

The above projections are based on the approved Annual Quantities (AQ) and Supply Point Capacity (SPC) procedures for Daily Metered (DM) and Non-Daily Metered Customers (NDM). The approved AQ and SPC give an estimate of the commodity and capacity elements for existing customers.

In addition, new NDM connections that are expected to occur during the year are factored in. New connections will increase expected capacity bookings on the network. However, it is expected that energy efficiency in the IC and residential sectors will result in lower than anticipated commodity throughput.

4.0 CER Decision on Distribution Tariffs for 2013/14

The CER hereby directs Gaslink to implement the tariffs set out in the Table 3.1 below from 1st October 2013 – 30th September 2014.

Volume Range		Capacity Charge(c/pk day kWh)		
>	< or=	A	B	Total
0	73	154.8157		154.8157
73	14,653	137.0493	3.9842	A-B*Ln(PDV[MWh])
14,653	57,500	342.3986	49.1344	A-B*Ln(PDV[MWh])
57,500		42.2238		42.2238

Volume Range		Commodity Charge(c/ kWh)		
>	< or=	A	B	Total
0	73	0.3578		0.3578
73	14,653	0.2858	0.0278	A-B*Ln(PDV[MWh])
14,653	57,500	0.3330	0.0439	A-B*Ln(PDV[MWh])
57,500		0.0651		0.0651

For capacity charges the above tariffs reflect a -1.8% change in nominal tariffs on 2012/13 and a -3.0% change in real term tariffs on 2012/13.

Commodity charges reflect a 4.0% increase in nominal tariffs on 2012/13 and a 2.8% increase in real term tariffs on 2012/13.

Overall, weighted Distribution tariffs have decreased in nominal terms by -0.6% on 2012/13 and in real terms by -1.8% on 2012/13.